

Malaysia

ADD (no change)

Consensus ratings*: Buy 2 Hold 0 Sell 0

Current price: RM0.74
Target price: RM1.00
Previous target: RM1.00
Up/downside: 35.4%
CGS-CIMB / Consensus: 2.1%

Reuters: AWC.F.KL
Bloomberg: AWC.F.MK
Market cap: US\$48.79m
RM198.1m

Average daily turnover: US\$0.10m
RM0.39m

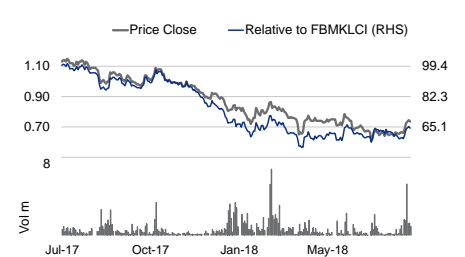
Current shares o/s: 256.0m

Free float: 62.1%

*Source: Bloomberg

Key changes in this note

➤ No change.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	10.5	0.7	-35
Relative (%)	5.8	6.1	-35.2

Major shareholders	% held
K-Capital Sdn Bhd	30.7
Ignatius Luke Jr Tan Keng Hee	4.2
Ahmad Kabeer bin Mohamed Nagooi	3.0

Analyst(s)



Walter AW

T (60) 3 2261 9093

E walter.aw@cimb.com

AWC Berhad

Acquisition of Trackwork to likely go through

- We recently spoke with AWC's management to obtain updates on its proposed acquisition of a 60% stake in Trackwork & Supplies Sdn Bhd for RM43.5m.
- The completion of this acquisition has been delayed due to a demand claim of RM19m from Trackwork's customer Fajarbaru regarding defective machines supplied.
- Trackwork has been discharged from any liabilities and obligations from the settlement amount of RM14m; it will be fully borne by Trackwork's principal, Gemac.
- AWC aims to complete this acquisition by end-Sep 2018. It still remains positive on Trackwork's prospects in regard to its expertise and experience in rail-related works.
- Maintain Add. TP remains unchanged at RM1.00 (11.2x CY19F P/E).

To recap, AWC announced plans to acquire 60% of Trackwork

AWC on 28 Feb 2018 stated plans to acquire a 60% stake in Trackwork & Supplies SB for RM43.5m. The acquisition was slated for completion by end-2Q18 and is valued at 8.1x CY18F P/E (based on profit guarantee of 20m in FY18-19F). However, AWC on 5 Jun announced that Trackwork and one of its international principals, Gemac, has received a demand letter from a customer, Fajarbaru (FBC MK, Non-rated), for RM19m in regards to defective equipment supplied. As a result, AWC requested to postpone the completion of this acquisition by three months to reassess the implication of this claim.

Trackwork will not be liable for any damage claims

AWC highlighted that the settlement amount for this demand letter has been agreed at RM14.1m between all three parties. Gemac has also on 14 Jun issued a letter stating that it will be solely responsible for the full payment of the settlement sum, and that Trackwork would be fully discharged from all liabilities and obligations in regards to this settlement amount. This is positive for Trackwork, indicating that it will not face any financial implications from this issue.

Acquisition of Trackwork to be completed by end-Sep

We understand that AWC is aiming to complete this acquisition by end-Sep 2018. It remains bullish on Trackwork's prospects in regard to its expertise and experience in rail-related industry. Despite recent negative newsflows especially the potential cancellation and/or deferment of major rail projects in the country, AWC is of the view that this will lead to more opportunities for Trackwork in terms of upgrading and rehabilitation works for existing rail systems in Malaysia.

Still an earnings accretive acquisition

In addition, AWC is confident that Trackworks will be able to deliver the collective net profit guarantee of RM20m in FY18-19F. This will be backed by its orderbook of RM120m (as at end-Feb) that mainly consist of supply, installation and commissioning of various track materials and track-related machineries. Based on our back-of-the-envelope calculations, AWC's FY19-20F EPS could increase 11.3-14.2% post completion of the acquisition. Note that we have yet to input any earnings contribution from Trackwork into our earnings estimates for AWC pending the completion of this acquisition.

Maintain Add

We maintain our Add call and SOP-based target price of RM1.00. We continue to like AWC for its defensive earnings and undemanding valuation of 8.0x CY19F P/E. Potential re-rating catalysts are stronger-than-expected contribution from its environment segment and more contract wins in its integrated facilities management (IFM) segment. Downside risks to our view include unexpected cessation of awarded contracts and termination of the proposed Trackwork acquisition.

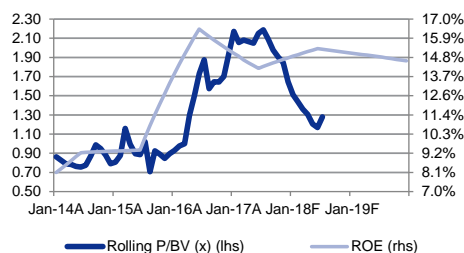
Financial Summary

	Jun-16A	Jun-17A	Jun-18F	Jun-19F	Jun-20F
Revenue (RMm)	249.3	296.1	313.9	331.0	355.5
Operating EBITDA (RMm)	31.90	45.94	42.29	44.78	47.67
Net Profit (RMm)	17.30	21.59	21.15	22.74	24.22
Core EPS (RM)	0.068	0.069	0.083	0.089	0.095
Core EPS Growth	89.8%	2.3%	19.6%	7.5%	6.5%
FD Core P/E (x)	10.88	10.64	8.90	8.27	7.77
DPS (RM)	0.025	0.020	0.025	0.030	0.035
Dividend Yield	3.40%	2.72%	3.40%	4.08%	4.76%
EV/EBITDA (x)	5.32	3.62	4.02	3.73	3.48
P/FCFE (x)	27.25	5.93	21.37	11.45	11.34
Net Gearing	(32.0%)	(34.6%)	(32.2%)	(33.7%)	(34.3%)
P/BV (x)	1.58	1.44	1.29	1.17	1.07
ROE	16.4%	14.1%	15.3%	14.8%	14.4%
CIMB/consensus EPS (x)			0.98	0.99	1.00

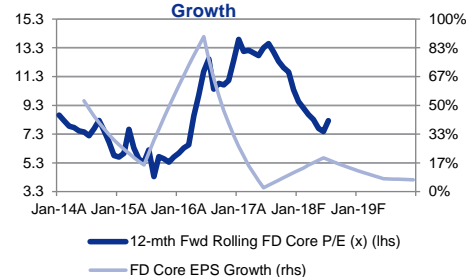
SOURCES: CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS

P/BV vs ROE



12-mth Fwd FD Core P/E vs FD Core EPS Growth



Profit & Loss

(RMm)	Jun-16A	Jun-17A	Jun-18F	Jun-19F	Jun-20F
Total Net Revenues	249.3	296.1	313.9	331.0	355.5
Gross Profit	79.1	85.8	94.5	102.8	112.2
Operating EBITDA	31.9	45.9	42.3	44.8	47.7
Depreciation And Amortisation	(1.8)	(6.5)	(6.5)	(6.6)	(6.7)
Operating EBIT	30.1	39.5	35.8	38.2	41.0
Financial Income/(Expense)	0.3	(0.4)	0.3	0.3	0.3
Pretax Income/(Loss) from Assoc.	0.0	0.0	0.0	0.0	0.0
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (pre-EI)	30.4	39.1	36.1	38.5	41.3
Exceptional Items					
Pre-tax Profit	30.4	39.1	36.1	38.5	41.3
Taxation	(6.5)	(8.7)	(8.3)	(8.5)	(9.1)
Exceptional Income - post-tax					
Profit After Tax	23.9	30.4	27.8	30.0	32.3
Minority Interests	(6.6)	(8.8)	(6.6)	(7.3)	(8.0)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	17.3	21.6	21.2	22.7	24.2
Recurring Net Profit	17.3	17.7	21.2	22.7	24.2
Fully Diluted Recurring Net Profit	17.3	17.7	21.2	22.7	24.2

Cash Flow

(RMm)	Jun-16A	Jun-17A	Jun-18F	Jun-19F	Jun-20F
EBITDA	31.90	45.94	42.29	44.78	47.67
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(13.79)	20.53	(10.18)	(4.87)	(6.98)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	0.00	0.00	0.00	0.00	0.00
Net Interest (Paid)/Received	0.00	0.00	0.00	0.00	0.00
Tax Paid	(6.50)	(8.23)	(8.30)	(8.47)	(9.10)
Cashflow From Operations	11.61	58.24	23.81	31.44	31.59
Capex	(3.50)	(26.50)	(15.00)	(15.00)	(15.00)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	0.00	0.00	0.00	0.00	0.00
Cash Flow From Investing	(3.50)	(26.50)	(15.00)	(15.00)	(15.00)
Debt Raised/(repaid)	(1.20)	0.00	0.00	0.00	0.00
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(7.40)	(8.96)	(6.40)	(7.68)	(8.96)
Preferred Dividends					
Other Financing Cashflow	0.15	0.45	0.60	0.60	0.60
Cash Flow From Financing	(8.45)	(8.51)	(5.80)	(7.08)	(8.36)
Total Cash Generated	(0.34)	23.23	3.01	9.36	8.23
Free Cashflow To Equity	6.91	31.74	8.81	16.44	16.59
Free Cashflow To Firm	8.11	31.74	8.81	16.44	16.59

SOURCES: CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Jun-16A	Jun-17A	Jun-18F	Jun-19F	Jun-20F
Total Cash And Equivalents	48.2	58.6	61.5	71.8	81.0
Total Debtors	120.6	91.5	103.2	108.8	116.9
Inventories	18.1	38.1	43.0	45.3	48.7
Total Other Current Assets	2.5	2.1	2.1	2.1	2.1
Total Current Assets	189.4	190.3	209.8	228.1	248.6
Fixed Assets	10.0	38.7	47.4	54.7	61.8
Total Investments	2.8	2.8	2.8	2.8	2.8
Intangible Assets	28.1	28.1	28.1	28.1	28.1
Total Other Non-Current Assets	1.6	1.6	1.6	1.6	1.6
Total Non-current Assets	42.5	71.2	79.9	87.2	94.3
Short-term Debt	0.2	0.2	0.2	0.2	0.2
Current Portion of Long-Term Debt					
Total Creditors	78.3	89.7	96.2	99.3	103.7
Other Current Liabilities	1.8	1.8	1.8	1.8	1.8
Total Current Liabilities	80.3	91.7	98.2	101.3	105.7
Total Long-term Debt	0.7	0.7	0.7	0.7	0.7
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	2.7	2.7	2.7	2.7	2.7
Total Non-current Liabilities	3.4	3.4	3.4	3.4	3.4
Total Provisions	0.2	0.2	0.2	0.2	0.2
Total Liabilities	83.9	95.3	101.8	104.9	109.3
Shareholders' Equity	119.1	131.0	145.7	160.8	176.0
Minority Interests	28.9	35.6	42.3	49.6	57.6
Total Equity	148.0	166.6	188.0	210.4	233.7

Key Ratios

	Jun-16A	Jun-17A	Jun-18F	Jun-19F	Jun-20F
Revenue Growth	94.7%	18.8%	6.0%	5.4%	7.4%
Operating EBITDA Growth	126%	44%	(8%)	6%	6%
Operating EBITDA Margin	12.8%	15.5%	13.5%	13.5%	13.4%
Net Cash Per Share (RM)	0.18	0.23	0.24	0.28	0.31
BVPS (RM)	0.47	0.51	0.57	0.63	0.69
Gross Interest Cover	N/A	N/A	N/A	N/A	N/A
Effective Tax Rate	21.4%	22.3%	23.0%	22.0%	22.0%
Net Dividend Payout Ratio	26.9%	16.9%	21.7%	24.6%	26.9%
Accounts Receivables Days	132.2	130.7	113.2	116.9	116.2
Inventory Days	38.31	48.77	67.46	70.67	70.73
Accounts Payables Days	64.11	77.40	89.05	93.28	93.37
ROIC (%)	45.9%	39.2%	32.9%	30.0%	29.4%
ROCE (%)	22.6%	24.7%	20.2%	19.2%	18.5%
Return On Average Assets	15.6%	16.0%	13.0%	12.6%	12.5%

Key Drivers

	Jun-16A	Jun-17A	Jun-18F	Jun-19F	Jun-20F
ASP (% chg, main prod./serv.)	6.5%	13.0%	0.0%	0.0%	0.0%
Unit sales grth (% , main prod./serv.)	52.1%	19.1%	7.0%	7.0%	7.0%
Util. rate (% , main prod./serv.)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% , 2ndary prod/serv)	N/A	N/A	N/A	N/A	N/A
Util. rate (% , 2ndary prod/serv)	N/A	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,main)	N/A	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,2ndary)	N/A	N/A	N/A	N/A	N/A

SOURCES: CIMB RESEARCH, COMPANY REPORTS

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CGS-CIMB Thailand does not confirm nor certify the accuracy of such survey result.

Score Range:	90 - 100	80 - 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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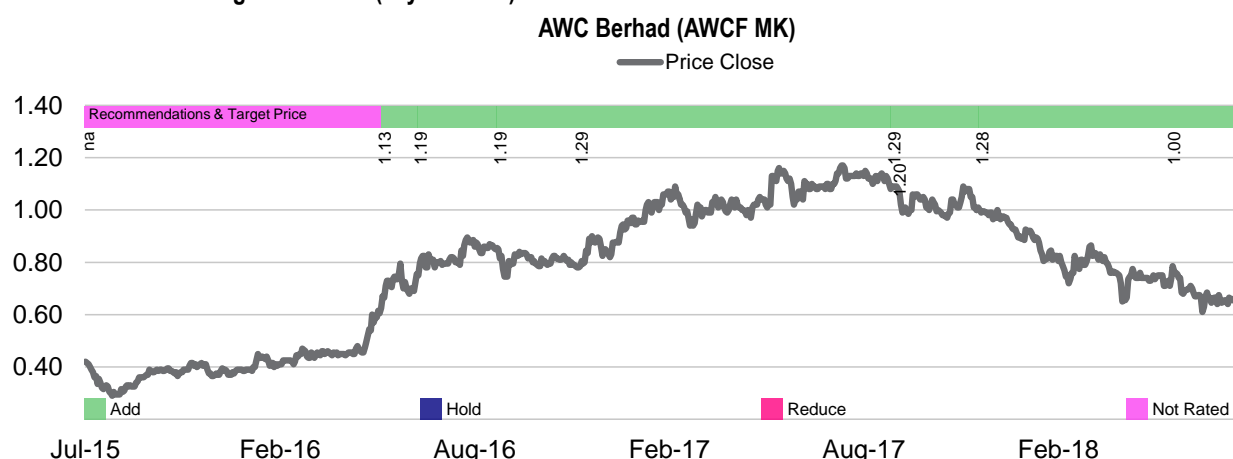
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Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2018		
1203 companies under coverage for quarter ended on 30 June 2018		
	Rating Distribution (%)	Investment Banking clients (%)
Add	62.3%	4.5%
Hold	26.2%	2.5%
Reduce	9.3%	0.8%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2017, Anti-Corruption 2017

AAV – Very Good, n/a, **ADVANC** – Excellent, Certified, **AEONTS** – Good, n/a, **AMATA** – Very Good, n/a, **ANAN** – Excellent, n/a, **AOT** – Excellent, Declared, **AP** – Excellent, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Declared, **BCP** – Excellent, Certified, **BCPG** – Very Good, n/a, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – not available, n/a, **BH** – Good, n/a, **BJC** – Very Good, Declared, **BJCHI** – Very Good, Declared, **BLA** – Very Good, Certified, **BPP** – Good, n/a, **BR** – Good, Declared, **BTS** – Excellent, Certified, **CBG** – Good, n/a, **CCET** – Good, n/a, **CENDEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** – Excellent, Certified, **DELTA** – Excellent, n/a, **DEMCO** – Excellent, Certified, **DIF** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Very Good, n/a, **ECL** – Very Good, Certified, **EGCO** – Excellent, Certified, **EPG** – Very Good, n/a, **GFPT** – Excellent, Declared, **GGC** – not available, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** – Excellent, n/a, **GUNKUL** – Excellent, Declared, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **ICHI** – Excellent, n/a, **III** – not available, n/a, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JAS** – not available, Declared, **JASIF** – not available, n/a, **JUBILE** – Good, Declared, **KAMART** – not available, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KGI** – Very Good, Certified, **KKP** – Excellent, Certified, **KSL** – Very Good, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, n/a, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Very Good,

Declared, **MALEE** – Very Good, n/a, **MBKET** – Very Good, Certified, **MC** – Very Good, Declared, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTLS** – Very Good, Declared, **NYT** – Excellent, n/a, **OISHI** – Very Good, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PSH** – Excellent, Certified, **PSL** - Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Very Good, n/a, **SAMART** - Excellent, n/a, **SAPPE** - Good, n/a, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Declared, **SCB** - Excellent, Certified, **SCBLIF** – not available, n/a, **SCC** – Excellent, Certified, **SCN** – Very Good, Declared, **SCCC** - Excellent, Declared, **SIM** - Excellent, n/a, **SIRI** – Very Good, Declared, **SPA** - Good, n/a, **SPALI** - Excellent, n/a, **SPRC** – Excellent, Declared, **STA** – Very Good, Declared, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **TASCO** – Very Good, n/a, **TCAP** – Excellent, Certified, **THAI** – Very Good, n/a, **THANI** – Very Good, Certified, **THCOM** – Excellent, Certified, **THRE** – Very Good, Certified, **THREL** – Excellent, Certified, **TICON** – Very Good, Declared, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TK** – Very Good, n/a, **TKN** – Very Good, Declared, **TMB** - Excellent, Certified, **TNR** – Good, n/a, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TIPIP** – not available, n/a, **TRUE** – Excellent, Declared, **TTW** – Very Good, n/a, **TU** – Excellent, Declared, **TVO** – Excellent, Declared, **UNIQ** – not available, Declared, **VGI** – Excellent, Declared, **WHA** – not available, Declared, **WHART** – not available, n/a, **WORK** – not available, n/a.

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- Companies that have declared their intention to join CAC, and
- Companies certified by CAC

Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.